

# **BUTTE COUNTY ASSESSMENT PRACTICES SURVEY**

**MAY 2000**

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## **CALIFORNIA STATE BOARD OF EQUALIZATION**

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May 19, 2000

TO COUNTY ASSESSORS:

No. 2000/030

BUTTE COUNTY  
ASSESSMENT PRACTICES SURVEY

Here is the Butte County Assessment Practices Survey Report. The State Board of Equalization (BOE) completed this survey in fulfillment of sections 15640-15646 of the Government Code. These code sections provide that the BOE shall make surveys in each county and city and county to determine that the practices and procedures used by the county assessor in the valuation of properties are in conformity with all provisions of law.

The assessor was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained in the report. This report, including the county assessor's response, constitutes the final survey report which is distributed to the Governor, the Attorney General, the State Legislature and the county's Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this survey of the Butte County Assessor's Office was conducted by BOE's County Property Tax Division between September 1998 and January 1999. This report does not reflect changes implemented by the assessor after the fieldwork was completed.

The Honorable Kenneth O. Reimers, Butte County Assessor, and his staff gave us their complete cooperation during the assessment practices survey. We gratefully acknowledge their patience and good spirit during the interruption of their normal work routine.

We invite your comments, for we feel that these surveys can only be helpful in a mutually cooperative atmosphere. For further information regarding California's property tax system, please refer to the BOE's Web site at [www.boe.ca.gov](http://www.boe.ca.gov). If you have any questions, please call me.

Sincerely,

Richard C. Johnson  
Deputy Director  
Property Taxes Department

RCJ:ml

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## INTRODUCTION

Although the primary responsibility for local property tax assessment is a function of county government, the State has both a public policy interest and a financial interest in promoting fair and equitable assessments throughout California. The public policy interest stems from the enormous impact of property taxes on taxpayers and the inherently subjective nature of the assessment process. The financial impact is that half or more of all property tax revenues are used to fund public schools, and the State is required to backfill any shortfalls from that property tax funding.

The assessment practices survey program is one of the major State efforts to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (BOE) is required to periodically review (survey) every county assessor's office and publish a report on the survey findings. This report reflects the BOE's findings in its periodic survey of the Butte County Assessor's Office.

The assessor is required by law to file with the board of supervisors a response that indicates the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly, and to the Butte County Grand Jury and Assessment Appeals Board. The response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The assessor elected to file his initial response prior to publication; the response is included in this report following the appendixes.

Management audit reports typically emphasize problem areas, with little said about operations that are performed correctly. Assessment practices survey reports also tend to emphasize problem areas. However, assessment practices survey reports also contain information required by law (see *Scope of Survey*) and information that may be useful to other assessors. The latter information is provided in the hope that the report will promote uniform, effective, and efficient assessment practices throughout California.

## SCOPE OF SURVEY

Government Code sections 15640 and 15642 define the scope of an assessment practices survey. As directed by those statutes, our survey addresses the adequacy of the procedures and practices employed by the assessor in the valuation of property, the performance of other duties enjoined upon the assessor, and the volume of assessing work as measured by property type. As directed by Government Code section 15644, this survey report includes recommendations for improvement to the practices and procedures found by the BOE's survey team.

In addition, Revenue and Taxation Code section 75.60<sup>1</sup> requires the BOE to certify that the county assessment roll meets a minimum assessment level. This certification may be accomplished either by conducting an assessment sample or by determining, through objective standards—defined by regulation—that there are no significant assessment problems. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix C.

Our survey of the Butte County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contact with other public agencies in Butte County with information relevant to the property tax assessment program.

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<sup>1</sup> All statutory references are to the Revenue and Taxation Code unless otherwise indicated.

## EXECUTIVE SUMMARY

- In our 1994 survey of the Butte County Assessor's Office, we made 14 recommendations. Of those recommendations, the assessor implemented two and part of another, elected to address a third with an alternate method, and failed to correct 10 of the assessment problems we reported.
- The computer system is now the responsibility of the assessor. He maintains both the hardware and software for the system. At the time of our current survey, he was testing a revised assessment software package. The backup files for the computer system need to be stored in a secured off-site location.
- Mandatory training requirements have been met by the assessor's staff.
- The State-County Property Tax Administration Program goals have been met by the assessor. The funding has greatly assisted the assessor in meeting many of his assessment requirements.
- The disaster relief ordinance and the assessor's procedures for processing disaster relief conform to statutory provisions.
- Assessment appeals procedures comply with law.
- Procedures for assessing low value properties need improvement. Staff should review the low value property printout to discover properties whose values exceed the low-value threshold and document appraisal files to enhance review of these properties. Also, staff need training on low-value property assessment procedures.
- The change in ownership program is operating correctly. Deeds are processed timely and forwarded to appraisal staff for review and valuation. In our prior survey, we recommended that the assessor apply the nonresponse penalties for failure to file the Change of Ownership Statement. The assessor has elected to use the Preliminary Change in Ownership Report instead of the Change of Ownership Statement, negating the requirement to apply the nonresponse penalties.
- The new construction assessment program is generally operating correctly.
- The decline in value program needs improvement. We recommend that the assessor develop a mass appraisal program to review the assessment of large residential areas.
- The rural assessment program includes a computer program for processing CLCA assessments. We found that charges for property taxes and maintenance expenses are not included in the income stream for nonliving improvements.
- Taxable government-owned procedures have not changed since our prior survey. We repeat our recommendations.
- Timberland production zone landowners should be sent an annual questionnaire to discover nonexclusive compatible uses.

- Possessory interest assessments are still not being made for private uses at the fairgrounds, and there is still no tracking system in place to determine reappraisable possessory interest events. We repeat these recommendations.
- Water company assessment procedures need revision. The assessor has not implemented any of our prior recommendations. The assessor should review annual county and state water inspection reports to discover assessable properties. The assessor should review the real property of publicly-owned water companies to discover property assessable pursuant to section 11 of article XIII of the California Constitution. Also, the assessor should consider the income and sales comparison approaches in assessing regulated water companies.
- Mineral property assessments need improvement. The assessor must obtain petroleum property records from the former consultant, and the factored base year values of these properties must be adjusted for changes in reserves as required by BOE Property Tax Rule 468. Mining properties are not being assessed as a unit as required by BOE Property Tax Rule 469(e)(1)(C).
- Procedures for appraising commercial and industrial properties are good. Records are well documented, and except for billboard assessments, there is good coordination between the real property and the personal property sections.
- Mandatory accounts are not audited timely, and waivers of the statute of limitations are not obtained for any accounts when audits are not completed timely, which was a recommendation from the prior survey.
- Incomplete business property statements should be returned to taxpayers for completion. We found similar types of property valued differently. The assessor should use the AH 581 as intended, also a prior recommendation.
- Pleasure boat and aircraft procedures need improvement. Boat assessment procedures should be based on market-derived methods, not a fixed depreciation method (a prior recommendation). Valuation of aircraft should conform to BOE's guidelines. The assessor should contact managers of marinas and airports when harbor master's reports and airport manager's reports are not returned.
- Billboard permits are sent to the business property staff, but they are only filed with the business property records and no verification of reporting is made. In addition, no notification is sent to the real property or change in ownership sections to determine any changes in ownership of the land where the billboard is located.
- Manufactured homes are improperly assessed as real property instead of personal property. The written procedures still include incorrect instructions for processing supplemental assessments for manufactured homes. In addition, valuation guides are not always considered in the assessment, and the taxable values are not reviewed annually for decline in value.
- Despite the problems noted above, we found that most properties and property types are assessed correctly. We attribute this to a knowledgeable and professional staff.
- The county assessment roll meets the requirements for assessment quality established by section 75.60. Accordingly, the Board of Equalization certifies that Butte County is eligible

to continue receiving reimbursement of costs associated with administering supplemental assessments.

Here is a list of the formal recommendations contained in this report, arrayed in the order that they appear in the text.

<b>RECOMMENDATION 1:</b>	Store computer system backup files at a secure off-site location.	11
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<b>RECOMMENDATION 3:</b>	Properly document low-value property appraisal files.	13
<b>RECOMMENDATION 4:</b>	Train staff on low-value property assessment procedures.	13
<b>RECOMMENDATION 5:</b>	Develop a mass appraisal program to review the assessments of residential properties for declines in value.	15
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<b>RECOMMENDATION 11:</b>	Annually review county and state water inspection reports to discover assessable water company properties.	20
<b>RECOMMENDATION 12:</b>	Review real property owned by government-owned water systems to discover property assessable pursuant to section 11 of article XIII of the California Constitution.	20
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## **RESULTS OF 1994 SURVEY**

In our 1994 survey of the Butte County Assessor's Office, we made 14 recommendations. Of those recommendations, the assessor implemented two of the recommendations and a part of another recommendation, selected an alternate method of addressing another of our concerns, and failed to correct 10 of the assessment problems we reported. The following is a summary of our review of the assessor's response to our 1994 survey report.

### ***Change in Ownership***

During our prior survey of the Butte County Assessor's Office, we found that the assessor failed to apply penalties for nonresponse to the Change of Ownership Statement (COS). We recommended that the assessor apply the penalties in accordance with sections 482 and 483. Since that report, the assessor has chosen to send a Preliminary Change in Ownership Report in place of the COS. This has proven very successful in obtaining taxpayer response.

### ***Possessory Interests***

In the prior survey, we found that the assessor was not assessing many of the recurring uses at the fairgrounds. In addition, we found many instances of escaped reappraisable events because the staff was not aware of lease extensions or option renewals. We recommended that the assessor take steps to ensure that all possessory interests are enrolled and to establish a tracking system for possessory interest accounts. The assessor has not implemented this recommendation.

### ***Manufactured Homes***

In reviewing the written procedures on the assessment of manufactured homes during our previous survey, we found erroneous instructions concerning classification and supplemental assessment relating to voluntary conversion of manufactured homes. We recommended that the assessor revise those portions of the procedures manual. The assessor has corrected the classification instructions, but the written procedures concerning supplemental assessment and voluntary conversion are still incorrect.

### ***Government-Owned Properties***

In our previous survey, we found a number of parcels listed on the nonassessed property list that were either outside the owning government's boundaries or not listed on the tax-rate area code index. We found inconsistent accounting as to the parcels owned by the State Department of Fish and Game. In addition, we found that the assessor incorrectly calculated the restricted values of section 11 properties and instead enrolled the factored base year values. We recommended that the assessor review the assessments of all governmental properties. The assessor has not implemented our recommendations.

## ***Water Companies***

We recommended in our prior survey that the assessor review the annual listings of water supply sources inspected by the county Division of Environmental Health and the State's Office of Drinking Water for possible assessments. We found a number of properties owned by public water districts located outside the district boundaries that were not assessed according to the provisions of section 11 of article XIII of the California Constitution. We recommended that the assessor review properties owned by public water companies to determine their correct assessment. In addition, we found that the assessor used only the cost approach in valuing the properties of private water companies. We recommended that the assessor consider the sales and income approaches when valuing the properties of private water companies. The assessor has not obtained the reports from the Department of Environmental Health or the Office of Drinking Water, reviewed assessments of publicly-owned water districts for section 11 properties, or developed other valuation approaches to value the properties of private water companies.

## ***Audit Program***

In the prior survey, we found that the assessor had not regularly obtained waivers of the statute of limitations when mandatory audits were not completed on time. We recommended that the assessor obtain these waivers. The assessor is still not obtaining these waivers.

## ***Business Property Valuation***

In reviewing the assessor's business property valuation procedures, we found that the assessor did not use any of the equipment index factors in the Assessors' Handbook Section 581 (AH 581), accepted business property statements with unauthorized signatures, continued to make estimated assessments for taxpayers who did not file a business property statement for four or more years, and reduced boat assessments by a fixed rate of 10 percent a year. We recommended that the assessor use the index factors in the AH 581 as instructed, screen statements more closely for authorized signatures, audit or visit nonfiling taxpayers, and use a market-derived procedure to assess boats. The assessor is screening business property statements more closely for authorized signatures and auditing or visiting nonfiling taxpayers, but has not implemented the other recommendations.

## OVERVIEW OF BUTTE COUNTY

The statistics derived from the BOE's assessment sampling of the 1998-99 Butte County local assessment roll indicate the overall quality of the roll for that year. (For a detailed explanation of the CPTD's assessment sampling program, see Appendix B.) As the tables below indicate, the BOE sampled 278 roll entries. We found 45 of these sampled roll entries were appraised by BOE staff at values different from the values determined by the assessor's staff (14 were underassessed and 31 were overassessed). These sample item differences, expanded by statistical measurement to represent all real and personal property assessed on the 1998-99 local roll, indicate about 7,720 properties were underassessed by approximately \$84,513,737, while about 10,794 properties were overassessed by approximately \$166,704,029.

### Estimated Difference Between the BOE's Expanded Sample Value and the County's Local Roll Value for Sampled Roll Items

	Number of Sample Items	Number of Assessments	County's Assessed Value	Difference Between County and BOE
Total	278	95,959	\$9,219,730,713	\$82,190,292

### Types of Value Differences

	County's Assessed Value	Difference Between County and BOE	Type of Difference	
			Overassessment	Underassessment
Total	\$9,219,730,713	-\$82,190,292	\$166,704,029	-\$84,513,737

When the BOE's sample value is statistically expanded, and the value differences (underassessment and overassessments) netted, the BOE's estimated value is \$9,137,540,421, or \$82,190,292 less than the county's local roll value of \$9,219,730,713 (actual county local value when nonsampled roll items are included is \$9,223,453,219).

Based upon CPTD's sampling of its 1998 roll, Butte County is eligible for reimbursement of the costs associated with administering supplemental assessments. The county's expansion ratio indicated an average assessment level of 100.90 percent. The sum of the absolute value of the differences was calculated at 2.75 percent. Accordingly, the Board of Equalization certifies that Butte County is eligible to continue receiving reimbursement of costs associated with administering supplemental assessments.

## ADMINISTRATION

This portion of the survey report focuses on the administrative policies and procedures of the Butte County Assessor's Office that affect both the real property and personal property assessment programs. We examined the budget and workload status, the computer system, training and qualifications of appraisal staff, how the assessor manages the funds provided by the State-County Property Tax Administration Program, how the assessor processes disaster relief claims, how the assessor prepares and presents assessment appeals, and how the assessor handles low-valued properties.

In our previous survey we concluded that the Butte County Assessor's Office was a well-managed organization with a competent professional staff and management team. However, we noted that the office was facing large budget cuts that could substantially alter its operation. During this survey we found that the current assessor has had to deal with the problems resulting from those budget cuts of up to 50 percent to the professional staff. Only recently has the staffing been restored, largely due to funds from the State-County Property Tax Administration Program (PTAP). In addition, PTAP funds have allowed the assessor to upgrade the computer system.

### ***Budget and Workload Analysis***

Since the 1994-95 roll year, the total assessed value of county-assessed property on the roll in Butte County has changed as follows:<sup>2</sup>

Year	Total Assessed Value (000)	Percent Increase	Statewide Percent Increase
94-95	\$8,079,104		
95-96	\$8,318,893	3.0%	0.7%
96-97	\$8,611,924	3.5%	1.3%
97-98	\$8,919,545	3.6%	2.8%
98-99	\$9,223,453	3.4%	4.9%

For the 1998-99 assessment year, the Butte County Assessor prepared an assessment roll on an approved budget of \$2,454,059 (1997-98), which is an approximate 6.4 percent increase over the prior year's budget. This budget funded about 47 permanent full-time positions. The professional staff consists of the assessor, the assistant assessor, a standards officer, four supervisors, 15 appraisers, and two auditor-appraisers.

### ***Computer System***

Butte County uses the Megabyte Integrated Property Management System (Megabyte) developed by Megabyte Systems headquartered in Fresno. This is a full tax-cycle database software that serves the county assessor, auditor, and tax collector offices. The assessor's staff maintains the

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<sup>2</sup> State Board of Equalization Annual Reports, Table 7, page A-7.

Megabyte program. All program data tapes and disks (including backups) are stored in the same room as the computer equipment hardware.

**RECOMMENDATION 1:** Store computer system backup files at a secure off-site location.

Since Butte County closed its data processing center, the assessor has been operating and maintaining his own computer system (hardware and software). Safeguarding the Megabyte program and its database has become his responsibility. The assessor stores all the computer tapes, disks, and backup files in the computer equipment room. If a fire or similar calamity should occur, the assessor would not only lose the existing system, but the backup files of the system and data too. Computer tapes, disks, and backup files should be stored separately from the equipment. We strongly recommend that the assessor store all backup tapes and disks at a secure off-site location.

### ***Training***

Section 670 provides that no person may perform the duties of an appraiser for property tax purposes unless he or she holds a valid certificate issued by the BOE. Section 671 further provides that all appraisers who hold such a certificate must complete at least 24 hours of annual training. This requirement is reduced to 12 hours of annual training if an appraiser holds an advanced certificate.

Our review of available training records indicates that of the 22 certified appraisers, 13 have advanced certificates. It is the assessor's intention that all appraisers obtain their advanced certification as soon as possible. Only one appraiser is deficient in the continuing education requirement.

### ***State-County Property Tax Administration Program (PTAP)***

Section 95.31 provides that, upon the recommendation of the assessor and by resolution of the county board of supervisors, the county may elect to participate in the State-County Property Tax Administration Program (PTAP). This program provides loans to enhance county property tax programs. If a county elects to participate in PTAP, it enters into a contractual agreement with the California State Department of Finance. At a minimum, the contract includes the loan amount, repayment provisions, a list of the proposed uses for the additional resources, and an agreement to provide the Department of Finance with a report projecting the impact of the increased funding for the current and subsequent fiscal years. The county cannot use the loan to supplant the assessor's current level of funding. Also, the county assessor's office must maintain certain base staffing and funding levels, independent of the loan proceeds. For the 1996/97 fiscal year, 44 counties participated in this loan program.

In March 1996, Butte County entered into a PTAP contract with the California State Department of Finance. The county elected to apply for a loan of \$381,956 for the fiscal year 1995-96 and to also participate for the fiscal years 1996-97 and 1997-98.

Since March 1996, loan funds have been used to increase the staffing level by 6.5 persons and to upgrade computer hardware and software. While the benefits of an upgraded computer system

have yet to be measured, increased staffing has made significant impact in each of the contract-criteria areas. A report by the Butte County Auditor-Controller verified that the assessor's office has, for each year of its contract, met its goals.

### ***Disaster Relief***

Section 170 allows an assessee to receive property tax relief if his or her property has been damaged or destroyed by misfortune or calamity through no fault of the assessee. To qualify for tax relief, the assessee must make written application to the assessor requesting reassessment within 60 days of the misfortune or calamity. However, if no application is made and if the assessor is aware of a property damaged by misfortune or calamity within the previous six months, the assessor shall provide the last known owner of the property with an application for reassessment.

Butte County enacted Ordinance No. 1531 on December 10, 1974, which referenced section 155.13 (now section 170). Ordinance No. 1531 conforms to the provisions of section 170. We reviewed a list of properties where misfortune or calamity occurred and found that proper assessment procedures were followed when relief was granted.

### ***Assessment Appeals***

The assessment appeals function is established by article XIII, section 16 of the California Constitution. Sections 1601 through 1641.1 are the statutory implementation provisions which govern the assessment appeals function. Further, Government Code section 15606(c) directs the BOE to prescribe rules and regulations to govern local boards of equalization, and the BOE has adopted sections 301 through 326 of Title 18 of the California Code of Regulations (Property Tax Rules 301 through 326) regarding assessment appeals.

The Butte County Assessment Appeals Board was created by Ordinance No. 114, dated September 22, 1970. The board currently consists of three regular members and one alternate appointed by the board of supervisors. Additionally, there is one hearing officer in Chico who hears appeals limited to single-family dwellings, condominiums, or cooperatives with values not exceeding \$300,000, and to multi-family properties of four units or less, regardless of value.

The following table shows the assessment appeal workload over the last five years.

<b>ASSESSMENT APPEALS ACTIVITY</b>				
	1994	1995	1996	1997
Appeals filed	177	285	381	315
Appeals heard	10	13	22	16
Appeals unresolved in year filed	29	29	24	21

The assessor used PTAP funds to review and prepare defenses on a large number of backlogged appeals. Consequently, with the exception of cable TV assessments, no assessment appeals were carried over from 1997 to 1998.

Both the assessor and the clerk of the appeals board monitor assessment appeals for timely processing.

### ***Low-Value Property Exemption***

Section 155.20 authorizes the county board of supervisors to exempt from property tax all real property with a base year value, and personal property with a full value, so low that if not exempt, the total taxes, special assessments, and applicable subventions on the property would amount to less than the cost of assessment and collection. On October 26, 1993, the Butte County Board of Supervisors adopted Resolution No. 93-158, which implemented the provisions of section 155.20, and established a \$2,000 value, commencing with the fiscal year 1994-95.

**RECOMMENDATION 2:** Review the low-value property printout to discover unqualified low-value properties.

We found three parcels on a low-value, untaxed property printout whose base year values exceeded \$2,000. These three properties underwent changes in ownership for the 1994-95 assessment year and the assessor determined that each had a base year value of \$5,000 or more. However, tax bills were never issued because the properties were still coded as low-value properties.

This situation could easily be corrected. Since a low-value printout is created each year, an appraiser could review this list each year to discover any parcel that exceeds the low value limit. We recommend that the assessor review the properties on the low-value printout to discover unqualified low-value properties.

**RECOMMENDATION 3:** Properly document low-value property appraisal files.

We found very limited documentation on low-value property records. Most of the records reviewed were of properties where the base year values had been determined prior to the enactment of the low-value resolution. Marking all low-value records or putting appropriate comments on the records will serve as a reminder to the appraiser to change the taxability code whenever the property is being reviewed. We recommend that the assessor properly document the records of all low value properties.

**RECOMMENDATION 4:** Train staff on low-value property assessment procedures.

We found that while the appraisers were aware of the low-value resolution, knowledge of the low-value limit and the appropriate procedures for handling such properties varied. We recommend that the assessor train staff on low-value assessment procedures.

## ASSESSMENT OF REAL PROPERTY

The assessor's main office is located in Oroville (the county seat), with branch offices in Chico and Paradise. At the time of our fieldwork, in September of 1998, the permanent professional staff assigned to handle the real property workload consisted of three supervising appraisers (one in the main office and one in each branch office), two senior appraisers, and 13 other appraisers.

The real property workload for the 1998-99 assessment year included about 6,000 changes in ownership, 2,000 building permits, 2,300 decline in value reductions, and 315 assessment appeals.

### ***Change in Ownership***

Section 50 requires the assessor to reappraise real property upon a change in ownership. Most often, the assessor learns of a change in ownership when a deed is recorded at the county recorder's office.

For the 1997-98 fiscal year, the assessor's office received approximately 50,000 recorded documents from the recorder's office. About 13,000 of these recorded documents were deeds that affected ownership of property in Butte County. Over 6,000 of the transfer deeds resulted in reappraisal, with the remainder being nonappraisable events such parent-to-child transfers.

The table below shows the history of transfers in Butte County over the last five years.

Roll Year	Total Documents Recorded	Total Transfers Processed	Transfers Requiring Reappraisal
1993-94	57,611	13,772	6243
1994-95	52,461	13,291	5922
1995-96	45,725	12,729	6185
1996-97	49,066	11,302	5606
1997-98	49,810	12,929	6381

Section 64(c) provides that a change in control of any legal entity is a change in ownership of all real property owned by the legal entity, as of the date of change in control. The Legal Entity Ownership Program (LEOP) section of the BOE's Policy, Planning, and Standards Division (PPSD) learns of unrecorded changes in ownership that occur by stock acquisitions and forwards this information to county assessor's offices.

A random review of the most recent LEOP reported transfers showed that the assessor's staff properly analyzed and reappraised the real properties involved. The assessor's system for the discovery and processing of LEOP transfers is operating effectively.

### ***New Construction***

Section 71 requires the assessor to reappraise newly constructed real property upon the date of completion, or on each lien date while construction is in progress. Assessors discover most new

construction activity from the building permits issued by various agencies. Other discovery methods include business property statements, aerial photographs, news reports, and field inspections.

The seven permit-issuing agencies in Butte County send copies of building permits to the assessor. Those classified as repairs or maintenance items are filed with the property appraisal record for future reference. The staff key all others into the computer system.

The assessor reinstated the self-reporting program for new construction items as suggested in our prior survey. Staff now sends three types of new construction questionnaires (one each for single-family residential, commercial/industrial and multi-family residential) requesting information on permitted construction. The senior commercial/industrial appraisers also generate individual request letters for larger commercial and industrial properties.

### ***Declines in Value***

When preparing the assessment roll, section 51 requires the assessor to enroll the lesser of either: (1) a property's factored base year value (FBYV), or (2) its current market value as defined in section 110. When a property's current market value falls below its FBYV on any given lien date, the assessor must enroll that lower value as the taxable value for that property. If, on a subsequent lien date, a property's market value rises above the FBYV, then the assessor must re-enroll the FBYV.

During 1995-96, the assessor used PTAP funds to hire short-term employees to review nearly 1,750 properties (mostly residential). This resulted in a reduction of approximately \$22.4 million in assessments.

All properties that have been reviewed and reduced in value are tracked in the computer system so that the inflation factor is not applied. Also, property records are tagged so they could be easily identified for annual review.

The assessor's staff currently monitors about 2,300 properties that have declined in value, out of a countywide total of 87,000 secured roll units. The Paradise and Oroville offices appraised 1,080 properties that declined in value in 1997 compared to 642 in 1996. The remaining decline in value assessments are located in Chico.

**RECOMMENDATION 5:** Develop a mass appraisal program to review the assessments of residential properties for declines in value.

Due to the number of properties involved, some counties have implemented mass appraisal programs using computerized multiple regression software to identify and estimate assessments of property where the market value has declined below the factored base year value. Such programs enable staff to analyze large quantities of residential properties in a short period of time. And, the program may also be used to aid staff in estimating the assessment of these properties when property values recover from the decline. The program also aids the assessor by allowing more appraisal time for the difficult assessments. Butte County does not have a mass appraisal program.

We recommend that the assessor consider developing a mass appraisal program to aid in the monitoring of those property values that have experienced a decline in value.

## **SPECIFIC REAL PROPERTY TYPES**

### ***California Land Conservation Act Properties***

An agricultural preserve is established by contract between a landowner and the county or city pursuant to the California Land Conservation Act of 1965 (CLCA). Lands under contract are valued on the basis of agricultural income-producing ability, including any compatible use income (e.g., hunting rights), and are assessed at the lowest of this restricted value, the current unrestricted market value, or the factored base year value defined in article XIII A of the California Constitution.

For the 1998-99 lien date, Butte County had 211,914 acres of agricultural preserve in 1,336 parcels with a total enrolled value of \$262,159,648. Fifty percent of the CLCA acreage is grazing land, and the remaining 50 percent is irrigated land. Rice is planted on approximately 25 percent of the irrigated land; trees, row crops, and irrigated pasture are on the remaining acres. Forty-two parcels representing 5,248 of the 211,914 acres (2.5 percent) were in nonrenewal status. Currently there are no CLCA parcels in cancellation status (only one cancellation occurred in 1996).

**RECOMMENDATION 6:** Include a charge for property taxes and maintenance expenses in the income stream for nonliving improvements.

We found that the charge for income attributable to the nonliving improvements (e.g., irrigation system) has been improperly calculated since 1996. It appears that the computer program calculates the charge without including a component for property tax and adjustments for maintenance expenses. Without the property tax component and the adjustments for maintenance expenses, the income to the nonliving improvements is overstated, and the net income attributable to living improvements is understated. This has resulted in an undervaluation of the living improvements.

We recommend the assessor revise the CLCA computer program to include adjustments for property taxes and maintenance expenses in the charge for nonliving improvements. Correcting the program omission will improve the assessor's CLCA program, as well as assist the appraisal staff in administering the program.

### ***Taxable Government-Owned Property***

Article XIII, section 11 of the California Constitution exempts from taxation those properties owned by local governments, except for properties located outside of the local government's boundaries that were taxable when acquired. These lands are commonly referred to as "section 11" properties.

**RECOMMENDATION 7:** Review the nonassessed property list to discover taxable government-owned properties.

Butte County has 20 section 11 properties, all vacant land. In our prior survey report, we recommended that the assessor review the nonassessed property list for assessment status of the properties listed. At that time, we found numerous properties listed that were either located outside the owning government's boundaries or that were not listed on the tax-rate area code index, making them potential section 11 properties.

The assessor is still not reviewing the nonassessed property list. The nonassessed property list contains parcels that are tax exempt and usually owned by government agencies. By comparing ownership and tax-rate area codes, we noted many parcels owned by government agencies that appeared to be located outside their boundaries. Since this may make them taxable government-owned properties, and therefore assessable in accordance with section 11, some properties may be improperly escaping assessment.

We repeat our recommendation that the assessor review the nonassessed property list as a means of discovering taxable government-owned property.

### ***Timberland Production Zone***

Land that has been zoned Timberland Production Zone (TPZ) is subject to assessment in accordance with statutory provisions that exclude the value of the standing timber. Section 435 specifies that the assessed value of TPZ land each year must be its appropriate site value plus the current market value of any existing, compatible, nonexclusive uses of the land. This section also provides that the special assessment limitations do not apply to any structure on TPZ land or to a site for approved compatible uses. In other words, structures and areas used as sites for compatible uses are subject to the same assessment guidelines as other real property.

For the fiscal year 1998-99, Butte County had 530 parcels of TPZ land totaling 5,795 acres. In Butte County one real property appraiser is assigned to manage the TPZ assessment program, which entails identifying, classifying, and appraising TPZ properties. The appraiser uses a computer program to calculate the assessments each lien date.

We found that the appraiser made a reasonable effort to accurately identify and value TPZ properties and any exclusive compatible uses. We also found that structures and building sites were properly assessed.

**RECOMMENDATION 8:** Send an annual questionnaire to TPZ landowners to obtain information on nonexclusive compatible uses of their land.

While permitted exclusive uses such as homesites, cabins, and hunting lodges are assessed, there is no systematic canvassing of TPZ properties to determine whether compatible nonexclusive uses exist. These uses may include hunting, grazing, camping, and mining, among others. The current market value of these nonexclusive compatible uses must be annually determined and added to the restricted site values of TPZ lands. Because of workload demands, the assessor's staff does not field review TPZ properties to discover nonexclusive compatible uses.

We recommend that the assessor send a questionnaire annually to TPZ landowners requesting information on any nonexclusive compatible uses of their properties.

### ***Taxable Possessory Interests***

A taxable possessory interest (PI) is a private property interest in publicly owned real property. For property tax purposes, the term “possessory interest” includes either the possession or the right to possession of real property when a tax-exempt government agency holds the fee title of that property.

For the 1998-99 assessment year, the assessor valued 228 possessory interests, with a total value exceeding \$42 million. In our 1994 assessment practices survey, we recommended that the assessor take steps to ensure that all possessory interests are enrolled and to establish a tracking system for possessory interest accounts. The assessor has not implemented these recommendations, therefore we repeat them.

**RECOMMENDATION 9:** Assess all taxable possessory interests at the Butte County fairgrounds.

During the annual county fair, the largest concession is the carnival rides, which generated revenues for the county in previous years. We found no possessory interest assessment for the carnival ride concession at the Butte County fairgrounds.

There are two fairgrounds in Butte County. The 3<sup>rd</sup> District Agriculture Association operates the Silver Dollar Fair in Chico and the Butte County Fair and Sportsman’s Expo in Gridley. The association rents space in the fairground facilities to groups and individuals, both public and private, during the annual fairs and for interim uses the remainder of the year. Such interim uses of the fairgrounds include dances, pet shows, dealer shows, and other public and private uses.

We found that none of the concessionaires or interim events at any of the fairgrounds were assessed as a possessory interest. We recognize that some community-sponsored fundraisers and nonrecurring events may be exempt, and others may fall within the purview of the low value ordinance. However, our findings suggest that some of these private concessions and interim uses may exhibit the private benefit, durability, exclusivity, and independence to constitute taxable possessory interests.

We recommend that the assessor review all uses at the fairgrounds and assess all taxable possessory interests.

**RECOMMENDATION 10:** Implement a tracking system for possessory interest accounts to determine reappraisable events.

Since our previous report, section 61(b)(2) has been revised to eliminate the need to annually reassess those PI’s with month-to-month or annual leases and permits. Once enrolled, the renewal of these PI’s are not considered changes in ownership until the end of the estimated term of possession used by the assessor.

With this change, it is even more important that the assessor establish a tracking system to indicate when a possessory interest is subject to reappraisal. We again recommend the assessor establish a possessory interest tracking system that will flag reappraisable events as they happen. In this way, when a term of possession expires, the assessor's staff will be aware that a reappraisal may be warranted.

### ***Water Company Property***

Water company properties assessed on local rolls may be municipal systems on taxable government-owned land (article XIII, section 11 of the California Constitution), private water companies regulated or unregulated by the California Public Utilities Commission (CPUC), or mutual water associations. Each type presents different appraisal problems. Valuation of property owned by water companies in Butte County is the responsibility of one real property appraiser.

In our prior survey we made three recommendations concerning the assessment of water company properties. None of these recommendations have been implemented, therefore, we repeat them.

**RECOMMENDATION 11:** Annually review county and state water inspection reports to discover assessable water company properties.

Reports issued by the Butte County Department of Public Health, Division of Environmental Health and the State's Office of Drinking Water are excellent sources for discovering water company properties. The listed water source properties include mobilehome parks, campgrounds, lodges, country clubs, mutual water companies, private water companies, and many more. A list of these properties can be very useful to the assessor in locating assessable wells, pumps, and pressure systems.

The assessor has not obtained or reviewed these reports. We repeat our recommendation that the assessor obtain and review lists of tested water systems from both the Butte County Department of Public Health, Division of Environmental Health, and also the State's Office of Drinking Water, to discover assessable property.

**RECOMMENDATION 12:** Review real property owned by government-owned water systems to discover property assessable pursuant to section 11 of article XIII of the California Constitution.

Properties owned by public water districts and cities, and located outside the district boundaries or city limits, that were taxable when acquired, must be assessed according to section 11 of article XIII of the California Constitution. In our prior survey, we found a number of properties owned by public water districts or cities with locations outside district boundaries or city limits, which were not assessed.

The assessor has not changed his procedures with respect to these properties. We repeat our recommendation that the assessor review all water system properties owned by public water districts or cities to determine whether they are taxable section 11 property.

**RECOMMENDATION 13:** Correlate the income, sales comparison, and cost approaches to value the property of regulated water companies.

We found that the assessor is still using only the historical cost less depreciation (HCLD) approach to value the property of regulated water companies (referred to by the county as the Rate Base Approach).

We repeat the recommendation that the assessor also use the sales and income approaches to value the properties of regulated water companies. Although there may be few sales of similar properties, income data can be used to develop an estimate of value. Using all three approaches will provide a better indicator of the property's value.

### ***Mineral Properties***

**RECOMMENDATION 14:** Obtain the appraisal records of petroleum property from the assessor's former consultant.

In previous years the assessor employed the services of a mineral consultant to perform the petroleum property appraisals. However, the value of these properties has decreased to a level where it is not practical or cost effective to continue this practice.

Now the responsibility for the appraisal work has been reassigned to the assessor's staff. The assessor did not retain copies of the files created by the consultant while under contract to the county, and his appraisers do not have the information contained in the files.

We recommend that the assessor contact the consultant and demand that copies of all files be returned to the assessor.

**RECOMMENDATION 15:** Adjust the factored base year value of petroleum properties for changes in the reserves.

We found that the assessor has not been recalculating the value changes in the reserves when determining the factored base year value of petroleum properties each year. For the last several years, the assessor has used the prior years' appraisals prepared by the consultant and adjusted by the BOE inflation factor for the current year. This method is inappropriate for mineral properties because it fails to address the issue of reserve value change, either from depletion or changes in economics.

We recommend that the assessor properly adjust the factored base year value for the properties each year, taking the change in reserve value into consideration before comparing it to the current market value.

There are 11 mining properties in Butte County. Several are currently inactive due to market conditions. Butte County also has a limited number of aggregate mineral properties. The county uses the royalty appraisal method to determine the value of mineral rights.

**RECOMMENDATION 16:** Assess mining properties as an appraisal unit.

We find that the assessor, when determining the appropriate taxable value to enroll, does not look at the value of the total appraisal unit. Instead, the staff compares the market value with the factored base year value of the real property, and then considers the market value of the business property and the reserves separately. Property Tax Rule 469(e)(1)(C) provides that declines in the value of the mineral property shall be recognized when the market value of the appraisal unit (i.e., land, improvements including fixtures, and reserves) is less than the current adjusted base-year value of the same unit.

We recommend that the assessor determine the factored base year value and the market value of the total appraisal unit before determining the appropriate taxable value. Once the unit value has been determined, the allocated values can be enrolled separately if it is administratively convenient.

***Commercial and Industrial Properties***

Most of the commercial/industrial properties in Butte County are located in the cities of Oroville and Chico. The Butte County Assessor exchanges commercial/industrial sales information with 15 other Northern Sacramento Valley counties. Sales analyses of commercial/industrial properties within Butte County often include detailed income analyses of the transferred properties. Staff appraisers analyze sales as they occur in their assigned geographic territories. Property characteristics, rents, expenses, and a number of market indicators such as unit values, rent multipliers, and capitalization rates are extracted from the collected data. The data is assembled in hard copy binders, segregated by property use types, and placed in a central location for use by the appraisal staff. In the Oroville main office, staff further extrapolates and lists basic units of comparison on a computer spreadsheet for quick reference.

Overall, the survey disclosed well documented records. The records detailed the appraiser's reasons for a given value in almost all appraisal actions. Some records included detailed notes containing vacancy rates in different areas of the city of Chico, income analysis, and evidence of coordination with the personal property section, as well as detailed narratives supporting an assessment.

Commercial and industrial properties present a number of assessment challenges. One of these is the need for coordination between the auditor-appraisers assessing personal property and fixtures and the real property appraisers. Often, the assessment of these properties will require the combined efforts of both sections, not only to classify and separate different types of assessable property, but to maintain proper assessment levels after additions and changes that occur in subsequent years.

Coordinated assessments are also necessary to accurately document and support complex appraisal conclusions for detailed presentation in any future assessment appeals. We noted that coordination between the two sections was evident in a number of instances in the appraisal property files.

## **ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES**

In Butte County, the assessor's personal property appraisal staff consists of two full-time and one part-time auditor-appraisers, one supervising auditor-appraiser, one staff system services specialist, and two full-time assessment clerks responsible for the appraisal of more than 7,000 commercial, industrial, and agricultural accounts, approximately 3,300 pleasure boats, and about 345 general aircraft.

Our examination of Butte County's 1998-1999 assessment roll included 22 secured and unsecured personal property and fixture assessments. In 13 of those assessments, our appraisal differed from the assessor's roll value. Seven of these differences involved judgment as to the service lives and index factors of machinery and equipment, three involved the proper valuation procedure for pleasure boats, one was a value judgment, another involved an escaped assessment, and the remaining difference was incorrect information on an aircraft. We believe that the recommendations contained in this report will help the assessor address some of the problems discovered by these sample differences.

Since our 1994 survey, the assessor implemented several improvements to the business property assessment program. Additional auditor-appraisers have been added, due in part to PTAP funding, and a mandatory audit list is now used to track the progress of mandatory audits. Leasing company files and information are much easier to locate since the inception of a new filing system wherein each leasing company is assigned an assessment number and all billing accounts are cross-indexed to that assessment number.

### ***Audit Program***

Pursuant to section 469, audits are mandatory for taxpayers reporting business tangible personal property and trade fixtures valued at \$300,000 or more.

For a number of years prior to 1995, the business property program was staffed by only one auditor-appraiser. The demands of processing business property statements left little time for auditing business accounts. Only within the last three years and with the addition of three auditor-appraisers funded with PTAP funds have audits of business accounts resumed.

The assessor has also initiated audits on businesses that do not qualify as mandatory audits, referred to as nonmandatory audits. As recommended in our previous survey, the assessor is also using a portion of the PTAP funds to focus on larger nonmandatory accounts where taxpayers repeatedly fail to file annual business property statements. In addition, a target number of nonmandatory audits were completed. We commend the assessor for accomplishing this task.

**RECOMMENDATION 17:** Timely audit all mandatory accounts.

We recognize that staff limitations in the past have seriously affected audit production. Only the recent addition of three auditor-appraisers to the business property staff has allowed the assessor

to attempt resolution of the backlog of audits. The following is a summary from available records of the assessor's mandatory audit production:

	<u>1996</u>	<u>1997</u>	<u>1998</u>
Potential Audits	104	113	96
Completed Audits	46	46	38
Holdovers	58	67	58

We found the audits were of good quality. However, despite significant progress, it is important to note all mandatory audits have not been completed timely. In fact, the assessor is completing less than half of his potential workload. We must urge the assessor to give mandatory audits the highest priority.

**RECOMMENDATION 18:** Obtain written waivers of the statute of limitations whenever a mandatory audit cannot be completed timely.

In our past survey, we recommended the assessor obtain waivers of the statute of limitations when a mandatory audit will not be completed timely. We find that the assessor is still not requesting waivers of the statute of limitations from taxpayers. According to the assessor, since mandatory audits were not completed timely due to limited staff, there is no reason to request a waiver.

Without a waiver, any escape assessment outside the statute of limitations cannot be enrolled. We repeat our recommendation that the assessor seek waivers of the statute of limitations in all situations where mandatory audits will not be completed timely, especially now that the assessor has additional auditor-appraisers.

### ***Property Statement Processing***

Section 441 requires each person owning taxable personal property in excess of \$100,000 to file a signed property statement annually with the assessor. Annual property statements form the backbone of the personal property assessment program. These statements cover a wide variety of property types, including businesses, agriculture, boats, and aircraft.

In addition to new auditor-appraisers, the Butte County Assessor reassigned two assessment clerks to help with the seasonal processing of about 7,000 business property statements (BPS). In 1998, all property statements were processed on time. The assessor has implemented our previous recommendation to screen property statements for authorized signatures.

**RECOMMENDATION 19:** Return incomplete business property statements to taxpayers.

Data submitted on the business property statement serves as the basis for the enrolled business property assessment. Business property statements also provide important information regarding changes in business ownership, location of the property, and the business start date at the current location.

We found several accounts where section 1 of the BPS was not completed. This section contains questions that alert the staff to a possible change in ownership, new leasehold improvements, remodeling by a new owner, or a change in location for the taxpayer and the records. When a taxpayer does not respond to these questions, important information is missing and could result in erroneous assessments.

We recommend the business property staff review all business property statements to ensure that they are complete. If incomplete, staff should return the statement to the taxpayer for compliance.

### ***Uniform Assessment Practice***

**RECOMMENDATION 20:** Use a uniform appraisal approach to value similar types of properties

The business property staff used two different methods to appraise outdoor signs owned by two different taxpayers. One assessment was based on an audit of the cost adjusted for trade level, and the other assessment was based on a schedule used by the State Department of Transportation.

Standardization and consistency in applying the same appraisal approach to similar properties is essential for equitable assessments among taxpayers. Selection of the same appraisal approach is one important step in the assessment process.

We recommend the assessor ensure that his staff use the same appraisal approach to value properties of the same type.

### ***Equipment Index Factors***

Taxable values of business equipment are calculated using historical costs and valuation factors. The valuation factors are derived from price index factors and percent good factors that measure depreciation. Accurate assessments of business equipment depend on the proper choice and application of these price index and percent good factors. The BOE annually publishes equipment price index and percent good factors in Assessors' Handbook Section 581 (AH 581).

**RECOMMENDATION 21:** Use the equipment index factors in the AH 581 as intended.

We found that the assessor is using the index factors for certain equipment categories as intended, but he is using a mathematical average of the index factors in other equipment categories. Using an average of the factors in various equipment categories sacrifices accuracy for convenience and may result in inequitable treatment of taxpayers. BOE staff developed the index factors from information for the various categories of businesses. We recommend that the assessor use the index factors in the AH 581 as intended.

## VALUATION OF OTHER TAXABLE PERSONAL PROPERTY

### **Boats**

The assessor is responsible for assessing approximately 3,300 boats. The total assessed value on the 1998-99 tax roll of boats in Butte County was about \$22.4 million. The primary sources for discovery of information concerning boats are the Department of Motor Vehicles (DMV) reports, harbor master's reports, and referrals from other counties.

**RECOMMENDATION 22:** Use a market-derived procedure to assess pleasure boats.

When a boat is purchased or moved into the county, the assessor's staff initially appraises the boat at market value, using the BUC or ABOS valuation guides, or enrolls the reported purchase price if it falls within the range suggested by the valuation guides. Once the initial value is set, subsequent assessments are annually reduced by a fixed percentage until the assessed value falls below the county's low-value exemption level of \$2,000, at which time no further tax bills are generated. This procedure assumes that all boats lose value at the same rate, which is not reasonable.

In our previous survey, we recommended that the assessor use a market-derived procedure to assess pleasure boats. We repeat this recommendation.

**RECOMMENDATION 23:** Contact marinas that do not return a harbor master's report.

The assessor sends a harbor master's report annually to all marinas in Butte County. If this report is not returned, no follow-up is done. We believe that this conveys a message that cooperation is not necessary or important. Since the report is important to help identify boats escaping assessment, we recommend that the assessor contact all marina owners/managers or schedule a field inspection of the marinas failing to return a harbor master's report.

### **General Aircraft**

Prior to the 1997 lien date, the BOE published aircraft valuation data each year in Assessors' Handbook Section 587, *Aircraft Valuation Data*. The BOE no longer publishes this handbook section. On January 8, 1997, the Board approved the *Aircraft Bluebook Price Digest* as the primary guide for valuing aircraft. As stated in Letter to Assessors 97/03 (LTA 97/03), dated January 31, 1997, the Board further directed that the listed retail values shall be reduced by 10 percent to provide reasonable estimates of fair market values for aircraft in truly average condition on the lien date. In any instance, appropriate adjustments to the book value must be made in order to estimate a market value in the hands of the user.

The assessor assesses approximately 345 general aircraft and a number of certificated aircraft operated by one company. The assessor's staff discovers general aircraft through the airport manager's reports, correspondence from other counties' aircraft appraisal units, and the Federal Aviation Administration reports provided by the BOE.

General aircraft are appraised using a CD-based computer program written by the same company that publishes the BOE-recommended price guide *Aircraft Bluebook Price Digest*. This program allows the user to make appropriate adjustments to a base value for variances in aircraft engine and overall condition, as well as variances in aircraft navigational equipment and avionics. A real property appraiser is responsible for the general aircraft assessments, and the business property staff is responsible for the certificated aircraft assessments.

**RECOMMENDATION 24:** Adjust the value of general aircraft indicated by the value guide as recommended by BOE.

The assessor's staff is using the BOE-recommended value guide to appraise general aircraft. However, we found it had not reduced the *Aircraft Bluebook Price Digest* values by 10 percent, as directed in LTA 97/03. We recommend that the assessor adjust the values indicated by the aircraft value guide as recommended by the BOE.

**RECOMMENDATION 25:** Contact airport owners or managers who do not return the airport manager's report.

There is no follow-up procedure for airport owners or managers who do not return the airport report to the assessor's office. As with the harbor master's report, the lack of follow-up suggests compliance is not important. We recommend that the staff contact airport owners or managers who do not comply with this request and inquire about the status of the report.

### ***Billboards***

The discovery of billboards comes from business property statements submitted by outdoor advertising companies or building permits. When building permits for signs thought to be billboards are received in the assessor's office, they are forwarded to the business property section for review and assessment. Sign permits for signs other than billboards are forwarded to the real property staff for processing. There is a lack of communication between the business property and real property staff concerning billboard construction activities or potential changes in ownership on land leased to advertising companies due to long term leases.

**RECOMMENDATION 26:** Establish procedures for processing sign permits.

In the course of the sample process, we found a billboard constructed in 1996 that had escaped assessment. In reviewing business account files for outdoor advertising companies, we found copies of building permits for advertising signs issued in 1996. However, we found no evidence that the permits were cross-checked against the property statement, nor did we find any notes in the file indicating that the permits had been researched to determine whether or not the sign had been assessed. Apparently, there are no procedures for follow-up on sign permits, other than to file the permit.

We recommend that the assessor establish procedures for processing sign permits. These procedures should ensure that all sign permits are forwarded to the business property section for assessment and that the permits are checked against the property statement to verify taxpayer reporting.

**RECOMMENDATION 27:** Ensure coordination between the business property and real property sections to discover changes in ownership of the land where a billboard is constructed.

We also reviewed the real property files and found occasional references to related business accounts. However, we found no communication from the business property section to the real property staff regarding new billboard signs. Subsequent research of a sample discovered a land lease for a term of 20 years, with a 20-year renewal option. Section 61(c) provides that the creation of a leasehold interest in taxable real property for a term of 35 years, including renewal options, is a change in ownership for that portion of the property subject to the lease.

We recommend information on new signs be forwarded to the real property staff for research into a possible change in ownership. Upon notification of a new billboard, the real property staff should request a copy of the land lease, if any, and review the lease for a possible change in ownership situation.

### ***Manufactured Homes***

Manufactured homes subject to local property taxation are assessed according to sections 5800 through 5842, referred to as “The Manufactured Home Property Tax Law.” This is a self-contained section of law that applies many of the principles of article XIII A of the California Constitution to the assessment of manufactured homes

In Butte County, the real property staff is responsible for the assessment of manufactured homes. A single staff member is responsible for the assessment of almost 2,700 units located in 106 parks. Manufactured homes sited on owned lots are assessed by individual appraisers responsible for the geographic territory in which they are located. The assessor used some of the PTAP funds to review approximately 3,000 parcels with manufactured homes, to segregate the land and the manufactured home assessment.

In our previous survey, we recommended that the assessor revise two portions of the procedures manual concerning the assessment of manufactured homes. One portion provided that, because manufactured homes were personal property, they were not subject to the limitations of article XIII A of the California Constitution (e.g., base years values, consumer price indexing, decline in value provisions). The procedures also directed staff to enroll supplemental assessments upon voluntary conversion of manufactured homes from vehicle license fee to local property tax.

The first of our concerns from the prior survey report has been addressed; however, the procedures manual still instructs staff to enroll a supplemental assessment upon voluntary conversion from a vehicle license fee to local property taxes if there is a simultaneous change in ownership. Therefore, we repeat that portion of our previous recommendation, and make additional recommendations to bring the manufactured home assessment program into full compliance with property tax law.

**RECOMMENDATION 28:** Classify all manufactured homes as personal property.

The Butte County Assessor's Office continues to classify manufactured homes as real property on the assessment roll. Section 5801(b)(2) requires that assessable manufactured homes be classified as personal property.

The assessor is aware of the provisions of the law requiring the classification of manufactured homes as personal property. But, no changes have been made to the computer program or the data in the system because he believes that changes to the existing system will be complex and costly. Instead, the assessor worked with the county auditor and county tax collector to identify and eliminate improper assessments charged to the improperly classified manufactured homes.

We commend the assessor's attempt to address the classification issue. However, the assessor is not in compliance with the law. We recommend that the assessor revise the current manufactured home assessment program so that manufactured homes can be correctly classified as personal property.

**RECOMMENDATION 29:** When assessing manufacturing homes, consider the value in recognized value guides as required by section 5803.

The appraisal staff does not always reference a recognized manufactured home value guide in enrolling values upon transfer. Further, staff has enrolled a number of manufactured home assessments at sale prices that are significantly higher than the values indicated in the value guide, without reference to the guide's values or comments concerning the basis for the assessments.

In order to ensure that any site value is not included in the assessment of manufactured homes, section 5803 directs the assessor to consider a recognized value guide for manufactured homes in determining their fair market value. Section 5803(b) provides that the assessor shall take into consideration the sales prices for manufactured homes listed in recognized value guides.

We recommend that both the specific value guide and the value indicated by that guide be noted on the manufactured home record to ensure compliance with section 5803.

**RECOMMENDATION 30:** Review manufactured homes for declines in value.

The survey revealed a number of manufactured home assessments that exceeded the manufactured home's current market value. In many instances, previously owned manufactured homes sold for an amount below their factored base year values at the time of the sales. This is a strong indication that the previous factored base year values were higher than current market value. Section 5813 provides that the taxable value of a manufactured home shall be the lesser of its base year value, compounded by the annual inflation factor, or its current market value as determined pursuant to Section 110.

We recommend that the assessor conduct annual market value reviews of manufactured homes and enroll the lower of the factored base year value or the current market value.

**RECOMMENDATION 31:** Supplementally assess only manufactured homes that change ownership after the initial enrollment.

The assessor's procedures manual directs the staff to enroll supplemental assessments when voluntary conversion occurs with a simultaneous change in ownership. (Most conversions occur just prior to the sale of a manufactured home because the seller markets the property so that the buyer avoids paying sales tax.) The base year value is its full cash value on the lien date for the fiscal year in which that manufactured home is first enrolled.

Changes in ownership between the conversion date and the ensuing lien date are not subject to supplemental assessment. Letter to Assessors (LTA) 83/128 explains that changes in ownership between the conversion date and the ensuing lien date do not result in a supplemental assessment because the manufactured home is not yet on the regular (601) roll. The fair market value of the manufactured home is not enrolled on the regular roll until the lien date following the conversion.

Additionally, it is not appropriate to make a supplemental assessment upon a voluntary conversion from DMV vehicle license fee to local property tax status. Supplemental assessments are only levied for a change in ownership or new construction. Voluntary conversions are neither. There is no change in ownership because the owner before the conversion is the same as after the conversion.

We recommend that the assessor supplementally assess manufactured homes for changes in ownership subsequent to the initial enrollment.

# **APPENDIX A: COUNTY PROPERTY TAX DIVISION SURVEY GROUP**

## **BUTTE COUNTY**

***Chief, County Property Tax Division:***

Charles Knudsen

Chief

***Survey Program Director:***

Gene Palmer

Principal Property Appraiser

***Office Survey Team Supervisor:***

Arnold Fong

Supervising Property Appraiser

***Office Survey Team Leader:***

Anthony Yuenger

Senior Specialist Property Auditor Appraiser

***Office Survey Team:***

Dale Peterson

Associate Property Auditor Appraiser

Raymond Tsang

Associate Property Auditor Appraiser

Pamela Bowens

Associate Property Auditor Appraiser

Robert J. Donay

Associate Property Appraiser

Rod Miyatake

Associate Property Appraiser

Tom Robinson

Associate Property Appraiser

Les Morris

Associate Property Appraiser

Sally Boeck

Associate Property Appraiser

Denise Owens

Tax Technician II

## APPENDIX B: SAMPLING PROGRAM

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing<sup>3</sup> activities is very important. The importance of compliance is twofold. First, the statewide maximum tax rate is set at 1 percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

The Board of Equalization (BOE), in order to meet its constitutional and statutory obligations, focuses the assessment sampling program on a determination of the full value of locally taxable property. The purpose of the BOE's assessment sampling program is to review a representative sampling of the assessments making up the local assessment rolls, both secured and unsecured, to determine how effectively the assessor is identifying those properties subject to revaluation and how well he or she is performing the valuation function.

The assessment sampling program is conducted by the BOE's County Property Tax Division (CPTD) on a five-year cycle for the 11 largest counties and cities and counties and on either a random or as needed basis for the other 47 counties. This sampling program is described as follows:

1. A representative random sampling is drawn from both the secured and unsecured local assessment rolls for the counties to be surveyed.
2. These assessments are stratified into 18 value strata (nine secured and nine unsecured).<sup>4</sup>
3. From each stratum a random sampling is drawn for field investigation, sufficient in size to reflect the assessment level within the county.
4. For purposes of analysis, the items will be identified and placed into one of five categories after the sample is drawn:
  - a) **Base year properties.** Those properties the county assessor has not reappraised for either an ownership change or new construction during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

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<sup>3</sup> The term "assessing" as used here includes the actions of local assessment appeals boards, the boards of supervisors when acting as boards of equalization, and local officials who are directed by law to provide assessment-related information.

<sup>4</sup> The nine value strata are \$1 to \$99,999; \$100,000 to \$199,999; \$200,000 to \$499,999; \$500,000 to \$999,999; \$1,000,000 to \$1,999,999; \$2,000,000 to \$19,999,999; \$20,000,000 to \$22,999,999; \$100,000,000 to \$249,999,999; and \$250,000,000 and over.

- b) **Transferred properties.** Those properties last reappraised because of an ownership change that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.
  - c) **New construction.** Those properties last reappraised to reflect new construction that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.
  - d) **Non-Proposition 13 properties.** Those properties not subject to the value restrictions of article XIII A, or those properties that have a unique treatment. Such properties include mineral-producing property, open-space property, timber preserve property, and taxable government-owned property.
  - e) **Unsecured properties.** Those properties on the unsecured roll.
5. From the assessment universe in each of these 18 value strata (nine strata on both secured and unsecured local rolls), a simple random sampling is drawn for field investigation which is sufficient in size to reflect the assessment practices within the county. A simple nonstratified random sampling would cause the sample items to be concentrated in those areas with the largest number of properties and might not adequately represent all assessments of various types and values. Because a separate sample is drawn from each stratum, the number of sample items from each category is not in the same proportion to the number of assessments in each category. This method of sample selection causes the raw sample, i.e., the “unexpanded” sample, to overrepresent some assessment types and underrepresent others. This apparent distortion in the raw sampling is eliminated by “expanding” the sample data; that is, the sample data in each stratum are multiplied by the ratio of the number of assessments in the particular stratum to the number of sample items selected from the stratum. Once the raw sampling data are expanded, the findings are proportional to the actual assessments on the assessment roll. Without this adjustment, the raw sampling would represent a distorted picture of the assessment practices. This expansion further converts the sampling results into a magnitude representative of the total assessed value in the county.
6. The field investigation objectives are somewhat different in each category, for example:
- a) **Base year properties**—for those properties not reappraised during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: was the value properly factored forward (for the allowed inflation adjustment) to the roll being sampled? was there a change in ownership? was there new construction? or was there a decline in value?
  - b) **Transferred properties**—for those properties where a change in ownership was the most recent assessment activity during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: do we concur that a reappraisal was needed? do we concur with the county assessor’s new value? was the base year value trended forward (for the

allowed inflation adjustment)? was there a subsequent ownership change? was there subsequent new construction? was there a decline in value?

- c) **New construction**—for those properties where the most recent assessment activity was new construction added during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: do we concur that the construction caused a reappraisal? do we concur with the value enrolled? was the base year amount trended forward properly (for the allowed inflation adjustment)? was there subsequent new construction? or was there a decline in value?
  - d) **Non-Prop 13 properties**—for properties not covered by the value restrictions of article XIII A, or those properties that have a unique treatment do we concur with the amount enrolled?
  - e) **Unsecured properties**—for assessments enrolled on the unsecured roll, do we concur with the amount enrolled?
- 7. The results of the field investigations are reported to the county assessor, and conferences are held to review individual sample items whenever the county assessor disagrees with the conclusions.
  - 8. The results of the sample are then expanded as described in (5) above. The expanded results are summarized according to the five assessment categories and by property type.

The primary use of the assessment sampling is to determine an assessor's eligibility for the cost reimbursement authorized by Revenue and Taxation Code section 75.60. During the course of the sampling activity, the assessment practices survey team may also discover recurring causes for the differences in the opinion of taxable value that arise between the assessor and the County Property Tax Division. These discoveries may lead to recommendations in the survey report that would not have otherwise been made.

## APPENDIX C: RELEVANT STATUTES AND REGULATIONS

### **Government Code**

15640. **Survey by board of county assessment procedures.** (a) The State Board of Equalization shall make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her.

- (b) The surveys shall include a review of the practices of the assessor with respect to uniformity of treatment of all classes of property to ensure that all classes are treated equitably, and that no class receives a systematic overvaluation or undervaluation as compared to other classes of property in the county or city and county.
- (c) The surveys may include a sampling of assessments from the local assessment rolls. Any sampling conducted pursuant to subdivision (b) of Section 15643 shall be sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county.
- (d) In addition, the board may periodically conduct statewide surveys limited in scope to specific topics, issues, or problems requiring immediate attention.
- (e) The board's duly authorized representatives shall, for purposes of these surveys, have access to, and may make copies of, all records, public or otherwise, maintained in the office of any county assessor.
- (f) The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process.

15641. **Audit of Records; Appraisal Data Not Public.** In order to verify the information furnished to the assessor of the county, the board may audit the original books of account, wherever located; of any person owning, claiming, possessing or controlling property included in a survey conducted pursuant to this chapter when the property is of a type for which accounting records are useful sources of appraisal data.

No appraisal data relating to individual properties obtained for the purposes of any survey under this chapter shall be made public, and no state or local officer or employee thereof gaining knowledge thereof in any action taken under this chapter shall make any disclosure with respect thereto except as that may be required for the purposes of this chapter. Except as specifically

provided herein, any appraisal data may be disclosed by the board to any assessor, or by the board or the assessor to the assessee of the property to which the data relate.

The board shall permit an assessee of property to inspect, at the appropriate office of the board, any information and records relating to an appraisal of his or her property, including “market data” as defined in Section 408. However, no information or records, other than “market data,” which relate to the property or business affairs of a person other than the assessee shall be disclosed.

Nothing in this section shall be construed as preventing examination of that data by law enforcement agencies, grand juries, boards of supervisors, or their duly authorized agents, employees, or representatives conducting an investigation of an assessor’s office pursuant to Section 25303, and other duly authorized legislative or administrative bodies of the state pursuant to their authorization to examine that data.

**15642. Research by board employees.** The board shall send members of its staff to the several counties and cities and counties of the state for the purpose of conducting that research it deems essential for the completion of a survey report pursuant to Section 15640 with respect to each county and city and county. The survey report shall show the volume of assessing work to be done as measured by the various types of property to be assessed and the number of individual assessments to be made, the responsibilities devolving upon the county assessor, and the extent to which assessment practices are consistent with or differ from state law and regulations. The report may also show the county assessor’s requirements for maps, records, and other equipment and supplies essential to the adequate performance of his or her duties, the number and classification of personnel needed by him or her for the adequate conduct of his or her office, and the fiscal outlay required to secure for that office sufficient funds to ensure the proper performance of its duties.

**15643. When surveys to be made.** (a) The board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.

- (b) The surveys of the 10 largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the board shall each year, in accordance with procedures established by the board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the board finds that a county or city and county has “significant assessment problems,” as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The 10 largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.

- (c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the board determines that a need exists to conduct a survey.
- (d) When requested by the legislative body or the assessor of any county or city and county to perform a survey not otherwise scheduled, the board may enter into a contract with the requesting local agency to conduct that survey. The contract may provide for a board sampling of assessments on the local roll. The amount of the contracts shall not be less than the cost to the board, and shall be subject to regulations approved by the Director of General Services.

**15644. Recommendations by board.** The surveys shall incorporate reviews of existing assessment procedures and practices as well as recommendations for their improvement in conformity with the information developed in the surveys as to what is required to afford the most efficient assessment of property for tax purposes in the counties or cities and counties concerned.

**15645. Survey report; final survey report; assessor's report.** (a) Upon completion of a survey of the procedures and practices of a county assessor, the board shall prepare a written survey report setting forth its findings and recommendations and transmit a copy to the assessor. In addition the board may file with the assessor a confidential report containing matters relating to personnel. Before preparing its written survey report, the board shall meet with the assessor to discuss and confer on those matters which may be included in the written survey report.

- (b) Within 30 days after receiving a copy of the survey report, the assessor may file with the board a written response to the findings and recommendations in the survey report. The board may, for good cause, extend the period for filing the response.
- (c) The survey report, together with the assessor's response, if any, and the board's comments, if any, shall constitute the final survey report. The final survey report shall be issued by the board within two years after the date the board began the survey. Within a year after receiving a copy of the final survey report, and annually thereafter, no later than the date on which the initial report was issued by the board and until all issues are resolved, the assessor shall file with the board of supervisors a report, indicating the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations of the survey report, with copies of that response being sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly and to the grand juries and assessment appeals boards of the counties to which they relate.

**15646. Copies of final survey reports to be filed with local officials.** Copies of final survey reports shall be filed with the Governor, Attorney General, and with the assessors, the boards of supervisors, the grand juries and assessment appeals boards of the counties to which they relate, and to other assessors of the counties unless one of these assessors notifies the State Board of

Equalization to the contrary and, on the opening day of each regular session, with the Senate and Assembly.

### ***Revenue and Taxation Code***

**75.60. Allocation for administration.** (a) Notwithstanding any other provision of law, the board of supervisors of an eligible county or city and county, upon the adoption of a method identifying the actual administrative costs associated with the supplemental assessment roll, may direct the county auditor to allocate to the county or city and county, prior to the allocation of property tax revenues pursuant to Chapter 6(commencing with Section 95) and prior to the allocation made pursuant to Section 75.70, an amount equal to the actual administrative costs, but not to exceed 5 percent of the revenues that have been collected on or after January 1, 1987, due to the assessments under this chapter. Those revenues shall be used solely for the purpose of administration of this chapter, regardless of the date those costs are incurred.

(b) For purposes of this section:

- (1) “Actual administrative costs” includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. “Actual administrative costs” also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.
- (2) “Eligible county or city and county” means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:
  - (A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board’s most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.
  - (B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county’s or city and county’s statutorily required assessed value, as determined pursuant to the board’s survey described in subparagraph (A).
- (3) Each certification of a county or city and county shall be valid only until

the next survey made by the board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define “significant assessment problems” for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible county or city and county. If a county or city and county is not certified by the board, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.

### ***Title 18, California Code of Regulations***

Rule 370. **Random selection of counties for representative sampling.** (a) SURVEY CYCLE. The board shall select at random at least three counties from among all except the 10 largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.

- (b) RANDOM SELECTION FOR ASSESSMENT SAMPLING. The three counties selected at random will be drawn from the group of counties scheduled in that year for surveys of assessment practices. The scheduled counties will be ranked according to the size of their local assessment rolls for the year prior to the sampling.
  - (1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the board from each of these groups. The board may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors’ Association witnessing the selection process.
  - (2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one

county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be

sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.

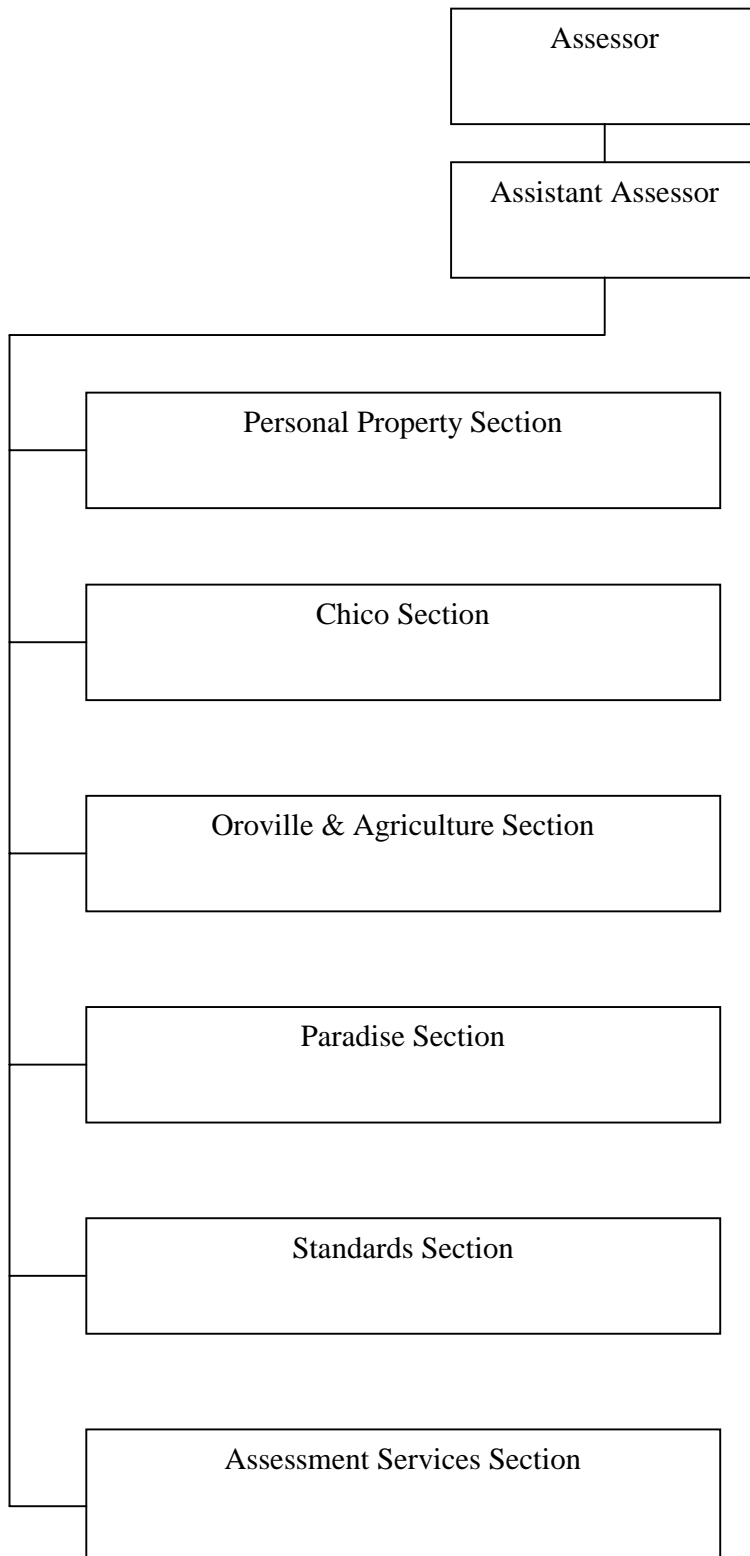
- (3) Once random selection has been made, neither the counties selected for an assessment sampling nor the remaining counties in the group for that fiscal year shall again become eligible for random selection until the next fiscal year in which such counties are scheduled for an assessment practices survey, as determined by the five-year rotation. At that time, both the counties selected and the remaining counties in that group shall again be eligible for random selection.
- (c) **ASSESSMENT SAMPLING OF COUNTIES WITH SIGNIFICANT ASSESSMENT PROBLEMS.** If the board finds during the course of an assessment practices survey that a county has significant assessment problems as defined in Rule 371, the board shall conduct a sampling of assessments in that county in lieu of conducting a sampling in a county selected at random.
- (d) **ADDITIONAL SURVEYS.** This regulation shall not be construed to prohibit the Board from conducting additional surveys, samples, or other investigations of any county assessor's office.

**Rule 371. Significant assessment problems.** (a) For purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, "significant assessment problems" means procedure(s) in one or more areas of an assessor's assessment operation, which alone or in combination, have been found by the Board to indicate a reasonable probability that either:

- (1) the average assessment level in the county is less than 95 percent of the assessment level required by statute; or
  - (2) the sum of all the differences between the board's appraisals and the assessor's values (without regard to whether the differences are underassessments or overassessments), expanded statistically over the assessor's entire roll, exceeds 7.5 percent of the assessment level required by statute.
- (b) For purposes of this regulation, "areas of an assessor's assessment operation" means, but is not limited to, an assessor's programs for:
- (1) Uniformity of treatment for all classes of property.
  - (2) Discovering and assessing newly constructed property.
  - (3) Discovering and assessing real property that has undergone a change in ownership.

- (4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.
  - (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.
  - (6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code Sections 107 et. seq.
  - (7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.
  - (8) Discovering and assessing property that has suffered a decline in value.
  - (9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.
- (c) A finding of “significant assessment problems,” as defined in this regulation, would be limited to the purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, and shall not be construed as a generalized conclusion about an assessor’s practices.

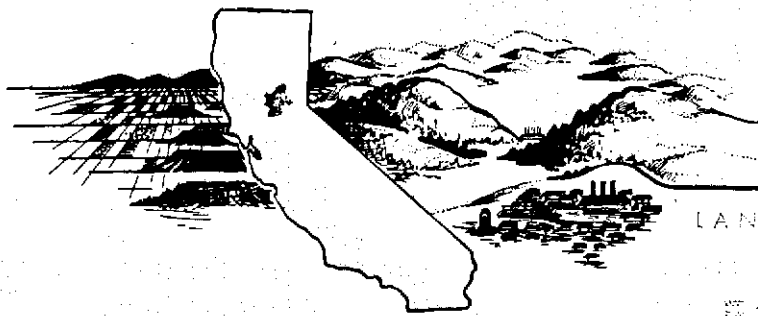
## APPENDIX D – ORGANIZATION CHART



## **ASSESSOR'S RESPONSE TO BOARD'S FINDINGS**

Section 15645 of the Government Code provides that the assessor may file with the Board a response to the findings and recommendation in the survey report. The Butte County Assessor's response begins on the next page.

Section 15645 also allows the Board to include in the report comments regarding the assessor's response. Our response begins on the next numbered page (there are no page numbers for the assessor's response).



# Butte County

LAND OF NATURAL WEALTH AND BEAUTY

KENNETH O. REIMERS

ASSESSOR

25 COUNTY CENTER DRIVE  
OROVILLE, CALIFORNIA 95965-3382

Telephone: (530) 538-7721

Fax: (530) 538-7991

March 30, 2000

APR 03 2000

COUNTY DIRECTOR  
PROPERTY TAXES

State Board of Equalization  
Property Taxes Department  
P.O. Box 942879 MIC: 63  
Sacramento, CA 94279-0063  
Attention: Richard C. Johnson

Dear Mr. Johnson:

Pursuant to Section 15645 of the California Government Code, the following is the Butte County Assessor's response to the recommendations contained in the Assessment Practices Survey of the 1998/99 assessment roll conducted by the State Board of Equalization survey team. Please incorporate my response in your final Assessment Practices Survey Report.

In reviewing my response, you will note that we agree with many of the recommendations and have already implemented several changes, or are planning to implement the changes recommended. As noted on Page 4 of the report, "...we found that most properties and property types are assessed correctly. We attribute this to a knowledgeable and professional staff." I'm pleased that most of the issues raised are minor technical matters that do not involve or affect the major duties and functions of the department. We will continue to strive to observe every aspect of the law while following sound appraisal practices in the production of the annual assessment roll.

In the interest of balance and fairness – I feel the need to put things in proper perspective. The following are three direct quotes from the last survey (1994):

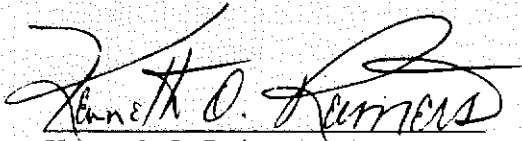
1. The Butte County Assessor's Office is a well managed organization with a competent, professional staff and management team. However, as we are concluding our fieldwork for this report, the assessor was facing large budget cuts that would substantially alter his operation.
2. Many assessors throughout the state are facing severe budget and staff reductions because of state's present fiscal crisis. Few assessors though are facing cuts as severe as those faced by the Butte County Assessor. At the time of the fieldwork for this survey, eight of the appraisal staff was given lay-off notices terminating their employment as appraisers in the assessor's office. This represents 38 per cent of the appraisal staff.

3. We compared the Butte County Assessor's workload with other assessor's workload that had similar sized assessment rolls. After the reduction of eight valuation positions, the Butte County Assessor will have the highest number of workload units per valuation position of any of the counties used for comparison.

In summary, these cuts were made and it was a rough road attempting to complete all mandated work with basically inadequate staff. We were eventually able to hire staff, through AB 818 funding, but the early years of my first term were not easy. Today, we have near adequate staffing and I'm proud of the staff for all they have accomplished through some difficult times.

I would like to thank you and your "team" for the professional and courteous manner in which the survey was conducted. I'm very proud of my staff's commitment to public service – I continue to receive comments (unsolicited) from the public, relating how helpful they have found my staff, in helping them resolve an issue or simply answer a question.

Sincerely,

A handwritten signature in dark ink, appearing to read "Kenneth O. Reimers". The signature is stylized with a large, sweeping initial "K" and "R".

Kenneth O. Reimers  
Assessor of Butte County

KOR:dg

**BUTTE COUNTY ASSESSOR'S RESPONSE  
TO  
STATE BOARD OF EQUALIZATION'S RECOMMENDATIONS**

**RECOMMENDATION 1:**

**Store computer system backup files offsite at a secure offsite location.**

**Response:**

We are taking actions to store copies of back-ups offsite.

**RECOMMENDATION 2:**

**Review the low value property printout to discover unqualified low-value properties.**

**Response:**

We concur with recommendation. Review of this low value printout is part of our roll close procedure.

**RECOMMENDATION 3:**

**Properly document low-value property appraisal files.**

**Response:**

Initially, the low value properties were enrolled from a working printout of properties. On any property with a base year value \$2,000 or below, the taxability code was changed. The values are tracked in the property tax system. Accordingly, no "value change" was posted on the appraisal record. Any subsequent change in the status of the property would be documented in the appraisal record.

**RECOMMENDATION 4:**

**Train staff on low-value property assessment procedures.**

**Response:**

The problem is not one of instructions or training, but a lack of attention to detail in the posting process. The new MPTS tax system will reduce the number of errors. The new inquiry screens show the tax roll value alongside the "current assessment". In addition to reviewing the taxability code, the appraisers are required to check the "tax roll" section to look for the correct tax roll value for the before portion of a supplemental assessment.

**RECOMMENDATION 5:**

**Develop a mass appraisal program to review the assessments of residential properties for declines in value.**

**Background:**

While we do not have a "mass appraisal program", we do monitor all sales in the county. These sales are compared with assessed values to timely alert the office to market trends. Mass appraisal programs work best in areas of uniformity (tract subdivisions, uniform neighborhoods). For the year surveyed, we had completed about 2,500 Prop. 8 appraisals. Of these, far less than

five percent (close to 2%) were the result of taxpayer initiated requests for reductions in value. In summary, we feel we have a very market responsive system in place. This individual appraisal of property (versus a mass appraisal program) appears to be more efficient, accurate, and responsive at this time. A spot check in several different areas revealed the following statistics:

**Paradise Area:** 58 samples taken from 9 different books (sales during 1999 of 1998 Prop. 8 properties). Sale price was an average of 4.585% above 1998 Prop. 8 value. Our Paradise branch office completed roughly 1,000 Prop. 8 appraisals for 1998 and 1,168 for 1999. Note: No mass appraisal program we are aware of would be this accurate (especially in non-conforming areas where lot sizes vary, quality class varies, and various miscellaneous adjustments are necessary to correctly reflect current market value). As a rule, our appraisal staff may individually review 2-3 times the number of properties (for Prop. 8 consideration) as actually make it to an active Prop. 8 reduction in value.

**Chico Area:** 47 Samples taken from 9 different books (1998 Prop. 8's to 1999 Sales). Sale Price was an average of 3.88% above 1998 Prop. 8 value. Note: Largest sale was \$5.7 million on Prop. 8 value of 5.452 million. Once again, if the current system being utilized is not "broken"; why recommend fixing it? Our Chico branch office completed roughly 1,200 Prop. 8 appraisals for 1998 and 1,400 for 1999.

**Oroville Area:** Although the sample numbers were less (because the total Prop. 8's are significantly less) 1999 Sales versus 1998 Prop. 8's in the Oroville area showed similar results to those found in the outlying two branch offices (Paradise and Chico).

**Agricultural Area:** Many properties were restored to their old base value for the 1998 assessment year.

Note: We believe the relatively low number of assessment appeals is directly reflective of our ability to timely deal with over assessment of property. If we had more appeals, reflecting the need for a mass appraisal program to reduce large numbers of over-valued property – we would likely agree with this recommendation. In reality, that does not appear to be born out by the facts presented. Our appeals numbered about 250 for 1998 and were closer to 150 for this last year (1999). Considerably less than one in ten are actually heard by either the hearing officer or the full assessment appeals board. These appeals are scheduled over about an 8 month time frame and most are not Prop 8 concerns.

Response:

We will continue to closely monitor values throughout the county (this should allow our staff to recognize any potential Prop. 8 concerns). This will also allow us to change existing Prop. 8 appraisals (up or down annually), as well as discover others that may warrant a new Prop. 8 valuation.

**RECOMMENDATION 6:**

**Include a charge for property taxes and maintenance expenses in the income stream for non-living improvements.**

Background:

Non-living improvement income charges should be based upon cost times a rate. This rate should include a component for yield, recapture, taxes and maintenance. While the components

are in place to properly calculate the charge, in fact, the tax and maintenance components are not included in the rate.

Response:

This is a data processing error which has been brought to the attention of Megabyte. The SBE analysis reverses the net effect of undercharging income to non-living imps. The effect as stated by SBE is that tree income is being undervalued. In actuality, tree income is being overstated because NLI income is being understated. We have corrected this oversight.

**RECOMMENDATION 7:**

**Review the non-assessed property list to discover taxable government-owned properties.**

Response:

We are following up on the recommendations. At least one district does not have taxes collected by the county. We had to get a boundary map for that district.

**RECOMMENDATION 8:**

**Send an annual questionnaire to TPZ landowners to obtain information on nonexclusive compatible uses of their land.**

Background:

We have roughly 550 TPZ properties, but large numbers of these are owned by the same party. Consequently, we should be able to send out proposed questionnaire without too much difficulty and ask individual owners to specify parcels retaining compatible nonexclusive uses. Time will tell whether response level and discovered value level will justify time expenditure. *Note: The TPZ appraiser from a nearby county said they initially sent out a mass mailing to accomplish the same goal. They only uncovered a minimal number of non-exclusive uses, being a few hunting leases, cell towers and radio towers. A decision was then made to discontinue the mass mailing and only contacting owners previously reporting said uses.*

Response:

We concur and will comply.

**RECOMMENDATION 9:**

**Assess all taxable possessory interests at the Butte County fairgrounds.**

Background:

We sent out questionnaires to both Butte County Fairgrounds and have received responses from both. We are separating out our exempt and low value uses and applying appropriate possessory interest values to the remainder. This process was initiated prior to the state review, but was admittedly at a start-up phase only.

Response:

We concur and will comply.

**RECOMMENDATION 10:**

**Possessory Interest Tracking System**

**Response:**

A system has been established since the visit of the sampling crew.

**RECOMMENDATION 11:**

**Annually review county and state water inspection reports to discover assessable water company properties.**

**Background:**

We currently review a copy of the water company yearly report to the state to ascertain water company properties. We will certainly be glad to attain the other reports.

**Response:**

We do not believe the state has provided any evidence of missed assessments due to our reliance on past reports. Contrary to your report stating, "The Assessor has not obtained or reviewed these reports." We routinely receive copies of all wells drilled in our county via permits issued through the Division of Environmental Health.

**RECOMMENDATION 12:**

**Review real property owned by government-owned water systems to discover property assessable pursuant to section 11 of article XIII of the California Constitution.**

**Response:**

We shall follow up on the recommendation.

**RECOMMENDATION 13:**

**Correlate the income, sales comparison, and cost approaches to value the property of regulated water companies.**

**Background:**

The state is currently in the process of revising its water company handbook which has not been updated since 1971. Proposed finalization date is January of 2001. In the meantime, we shall contact other counties and involved state personnel to determine both the existence of meaningful sales comparables and a standardized income approach throughout the state.

**Response:**

We will comply.

**RECOMMENDATION 14:**

**Obtain the appraisal records of petroleum property from the assessor's former consultant.**

**Response:**

The assessor will be obtaining those records.

**RECOMMENDATION 15:**

**Adjust the factored base year value of petroleum properties for changes in the reserves.**

Response:

We concur

**RECOMMENDATION 16:**

**Assess mining properties as an appraisal unit.**

Response:

We concur

**RECOMMENDATION 17:**

**Timely audit all mandatory accounts.**

Response:

We agree. All mandatory accounts should be audited on a timely basis. We expect to continue to make progress in this area. Staffing levels have increased and the new auditor-appraisers now have sufficient training and experience to increase production of mandatory audits.

**RECOMMENDATION 18:**

**Obtain written waivers of the statute of limitations whenever a mandatory audit cannot be completed timely.**

Response:

We will give a higher priority to requesting waivers of the statute of limitations for audits that we have begun or are currently contemplating. Lower priority will be given to requesting waivers for audits that we do not anticipate scheduling in the current audit season.

**RECOMMENDATION 19:**

**Return incomplete business property statements to taxpayers.**

Response:

Business property staff currently reviews property statements to determine whether they are complete. Property statements are returned to the taxpayers for completion when this action is considered appropriate.

**RECOMMENDATION 20:**

**Use a uniform appraisal approach to value similar types of properties.**

Response:

We agree.

**RECOMMENDATION 21:**

**Use the equipment index factors in the AH 581 as intended.**

**Response:**

The concern expressed by the BOE staff arises from our practice of averaging the "new" and "used" factors for Construction Mobile Equipment and Agricultural Mobile Equipment in Table 5 of the AH 581. Given the information that is available when we process the property tax returns for these taxpayers, we believe that our current practice is adequate. This is too fine a point to cause great concern.

**RECOMMENDATION 22:**

**Use a market-derived procedure to assess pleasure boats.**

**Response:**

This will be implemented as staffing level allows.

**RECOMMENDATION 23:**

**Contact marinas that do not return a harbor master's report.**

**Response:**

This will be implemented as staffing level allows.

**RECOMMENDATION 24:**

**Adjust the value of general aircraft indicated by the value guide as recommended by BOE.**

**Response:**

The SBE letter is advisory only, since the process has not been adopted as a rule or assessor's handbook. A comparison of actual sales to the bluebook results on those sales indicates that a 10% adjustment is inappropriate.

**RECOMMENDATION 25:**

**Contact airport owners or managers who do not return the airport manager's report.**

**Response:**

This will be implemented as staffing levels allow.

**RECOMMENDATION 26:**

**Establish procedures for processing sign permits.**

**Response:**

We concur.

**RECOMMENDATION 27:**

**Ensure coordination between the business property and real property sections to discover changes in ownership of the land where a billboard is constructed.**

**Response:**

We concur

**RECOMMENDATION 28:**

**Classify all manufactured homes as personal property.**

**Response:**

For separately assessed manufactured homes this was accomplished as we converted to our new computer system. We are in the process of separating out manufactured homes on the same taxpayers land, to separate accounts. At the time of separation, they are being moved to personal property. At the time of this survey, we had completed approximately 85% of the mobilehomes in the county.

**RECOMMENDATION 29:**

**When assessing manufactured homes, consider the value in recognized value guides as required by section 5803.**

**Response:**

We are reminding the appraisers to do so. Unfortunately in the survey, the survey appraisers **ONLY** looked at the value guides, and did not attempt to analyze sales. This code section only applies to manufactured homes on leased or rented land.

**RECOMMENDATION 30:**

**Review manufactured homes for declines in value.**

**Response:**

This is why we had prioritized the preparation of the mobilehomes from the land and other improvements, so we can easily review the mobilehome values.

**RECOMMENDATION 31:**

**Supplementally assess only manufactured homes that change ownership after the initial enrollment.**

**Response:**

We disagree with the board staff's interpretation of this section. Our experience is that the seller (not the buyer) transfers the manufactured home, and this is **followed** by a sale. The supplementals are because there was a change of ownership after conversion.

## BOARD'S COMMENTS ON ASSESSOR'S RESPONSE

In accordance with the provisions of Government Code section 15645, the Butte County Assessor elected to incorporate his response to the BOE's findings and recommendations in the published survey report. Section 15645 of the Government Code also allows the BOE to include in the report comments regarding the assessor's response.

Recommendation 31: Supplementally assess only manufactured homes that change ownership after the initial enrollment.

The assessor states in his response to Recommendation 31 that "We disagree with the board staff's interpretation of this section. Our experience is that the seller (not the buyer) transfers the manufactured home, and this is **followed** by a sale. The supplementals are because there was a change of ownership after conversion." (Emphasis in original)

The assessor is incorrect. The BOE's position was clearly expressed in Letter To Assessors no. 83/128 (dated December 6, 1983). In that advisory opinion, the BOE advised that the base year value for manufactured homes converted to local property taxation is its fair market value on the ensuing lien date. This position was reaffirmed by Chapter 1222 of the Statutes of 1994 (SB 1431) which amended section 5802 of the Revenue and Taxation Code to establish the basis for the base year value of a manufactured home converted from taxation under the vehicle license fee to local property taxation. (See Letter To Assessors no. 95/05.) Subdivision (c) was added to read that:

The base year value of a manufactured home converted pursuant to Section 18119 of the Health and Safety Code from taxation under Part 5 (commencing with Section 10701) of Division 2 to taxation under this part shall be its full cash value on the lien date for the fiscal year in which that manufactured home is first enrolled.

The statute clearly states that the base year value of a manufactured home converted to local property taxation is its full cash value on the ensuing lien date for which it is first enrolled. For example, if a manufactured home was converted to local property taxation in September 1994, it would be first enrolled on July 1, 1995, for the 1995-96 fiscal year. The base year value to be enrolled would be its full cash value as of March 1, 1995. If a manufactured home changes ownership between the date of the conversion and the date the value is enrolled, it would still be first enrolled on the ensuing July 1 following the conversion. No supplemental assessments would be issued for the change in ownership since the manufactured home is not yet on the roll. Any change in ownership after the enrollment on July 1 would trigger appropriate supplemental assessment(s).

Again, we urge the assessor to supplementally assess only manufactured homes that change ownership after the initial enrollment in accordance with section 5802 of the Revenue and Taxation Code.